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Institute for Policy Research



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Youth employment – still waiting for the upturn



About this research

Recessions always hit young people hard. Firms' first response to declining orders is to stop hiring new recruits rather than sacking experienced staff. Young people disproportionately rely on new hiring to secure employment as they move from education into the world of work and seek to move to jobs closer to their career goals. Yet, the strong jobs recovery over the last two years has seen little increase in employment among young people. This briefing note, by Professor Paul Gregg (University of Bath, Department of Social and Policy Sciences), draws out the main policy responses from the Coalition Government. These fall into three broad areas: first, encouraging young people to extend participation in education or training; second, seeking to accelerate the recruitment of young people by employers; and third, to offer valuable work experience to those struggling to make quick transitions from education to employment. The first and third approaches are showing some success, but overall the policy response to youth unemployment to-date lacks sufficient scale, intensity and local co-ordination.

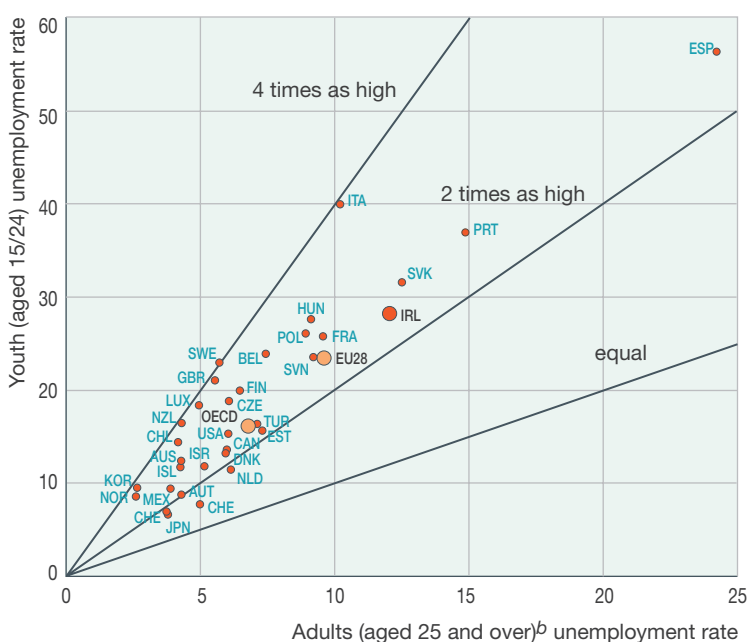
Youth unemployment in the UK: the picture so far

In the UK around 40% of the unemployed are under 25. Across all developed countries the youth labour market is more sensitive to prevailing conditions. Firms' first response to a period of recession is to stop recruiting new staff rather than to lay off their existing experienced and knowledgeable workforce. Only when a firm is in acute financial distress does it normally make people redundant. The young trying to move from education into the workforce are thus most exposed to the disappearance of new vacancies.

As **Figure 1** shows, across developed (OECD) countries the youth unemployment rate typically runs around 3 times that of the adult (25+) unemployment rate. This measure captures the extent to which unemployment in a country is disproportionately focused on the young. The UK, along with Italy and Sweden, is one of the worst in this respect, as the unemployment rate disparity runs at nearly 4 times. This picture is very much at odds with the UK narrative that its flexible labour market, in terms of jobs and wages, should include marginal groups. Indeed, a quick scan of this Figure shows there is no correlation at country level between high levels of employment protection and the concentration of unemployment on the young.

Figure 1: Youth vs. adult unemployment - 2013

Percentage of the labour force of the indicated group, Q3 2013^a



Key messages for policy

- Youth unemployment in the UK remains a critical policy concern with nearly 1 million young unemployed (ONS).
- 40% of the unemployed are aged under 25 meaning that the Youth Unemployment rate is nearly 4 times that of those aged 25+ (OECD, 2013).
- Over the last 2 years the UK economy has created 1 million jobs, but just 40,000 of these have gone to the under 25s.
- In response to high levels of youth unemployment, the Government has introduced policies to raise participation in education and training of 16 and 17 year olds. These policies are producing results for this age group, but have done little to smooth the transition of young people from school to work.
- The rise in apprenticeship starts among the under-19s been modest, with increased numbers of apprenticeships mainly driven by older age groups.
- Policies to improve the job entry rate of young people – such as the flagship ‘Work Programme’ – have been disappointing with just 74,000 young unemployed being helped into work since the summer of 2011. Take up of the recruitment subsidy offered to firms has been even more disappointing.
- Providing opportunities for young people to gain work experience has proven a cost-effective way of improving job entry.
- The government has signalled welcome fresh thinking in this policy space, but it remains lacking in scale and effective local delivery.

- a) Q2 2013 for Estonia, Greece, Hungary, Norway, Switzerland, Turkey and the United Kingdom.
b) Persons aged 25-74 for the European countries.

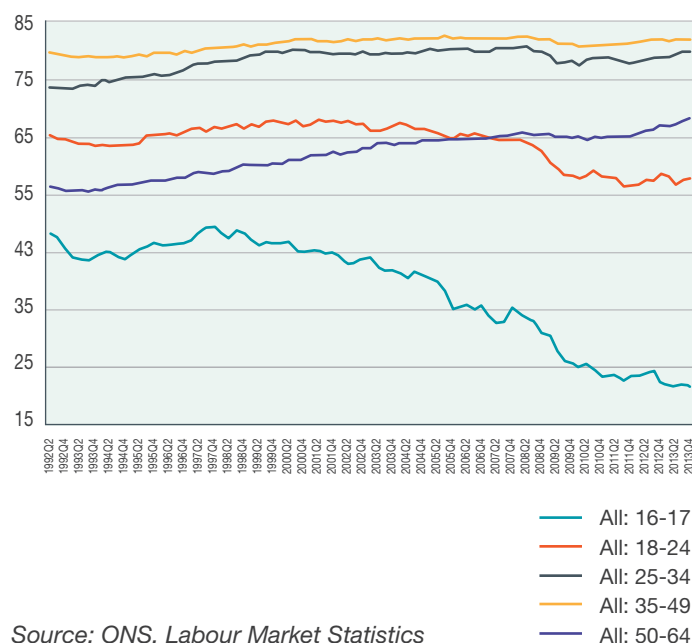
Source: OECD Short-Term Labour Market Statistics Database (2013)

The level of youth unemployment in the UK is also surprisingly poor compared to other countries. Whilst Southern European countries (Spain, Italy, Portugal) and Ireland have extremely high youth unemployment rates, which make us look good by comparison, the UK, despite some recent improvements, is in the second tier of countries, with the youth unemployment rate of those aged 16-24 still standing at a little under 20% at the end of 2013.

This inequality in exposure to unemployment has worsened in the UK through the recent recession and subsequent employment recovery. The recession has been highly unusual. Whilst real wages fell far more than in past recessions, there has been relative limited falls in employment and a rapid employment recovery. Yet this good news is, so far, leaving youth out in the cold. Over the last two years the UK economy has added an impressive 1 million jobs, but just 40,000 of this increase was among the under 25s. The young make up 40% of the employed but have gained just 4% of jobs created. **Figure 2** makes this point starkly. It shows how the downturn hit young people hardest, with employment rates of those aged 18 to 24 falling by nearly 10 percentage points in the last decade; from 67.5% in work in the first quarter of 2004 to a trough of around 57.8% in the last quarter of 2013. For those under aged under 18 the collapse has been even greater; from around 45% at the beginning of the century, to 35% before the recession, to just 18% now. This figure includes those in evening and weekend work only, and the fall has affected both those in and outside full-time education. Young people are just not getting any work experience with 26% of young people in full-time education combining work with study (ONS Labour Market Statistics February, 2014).

What is even more striking is the contrast between the employment of the young and the employment of older workers (50+), which rose steadily through the recession, and with those aged 25 to 34, who have recovered the employment losses they experienced. It is those aged under 25 who are still waiting for the upturn to reach them. This is all the more concerning as we would normally expect the youngest to be hit hardest in the downturn, but benefit disproportionately in the recovery.

Figure 2: Employment rate by age group - 1992 to 2013



Source: ONS, Labour Market Statistics



The policy response to high youth unemployment: some issues and implications

Raising the participation age and tackling NEETHood

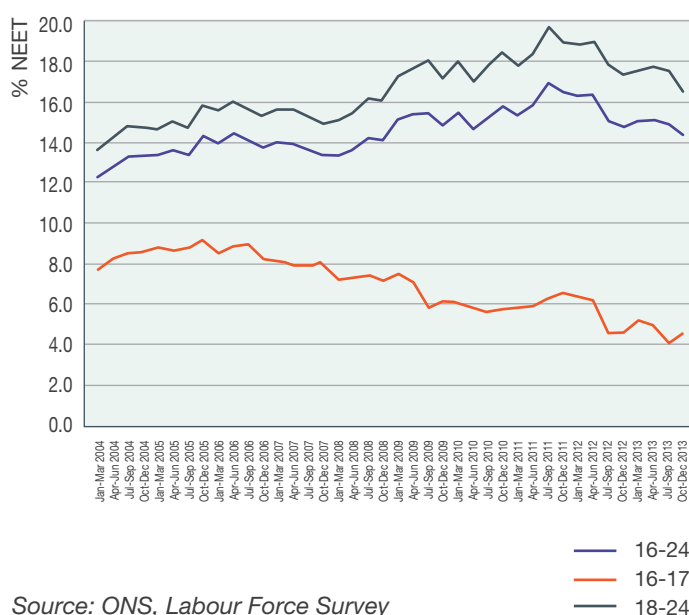
Of course, young people are not blind to this downturn in their employment opportunities, and have responded by extending their participation in education. A response which has been actively supported by both the current and previous government, through policies to encourage continued education and boost the number of places on apprenticeships. The Raising of Participation age to 17 from last Autumn, and the planned increase to 18 in 2015, places a duty on Local Authorities to make sure all those in the year after taking GCSE's are still in full-time education, an apprenticeship or employment with training. As can be seen in **Figure 3**, we are seeing a sustained fall in the numbers of 16-17 year olds who are NEET (not in education, employment or training); down to just 4.5% in the period October to December 2013, which covers the new commitment for the start of the academic year. In general, there has been a welcome decline in NEETHood, from a peak in the middle of 2011, because young people have delayed leaving education. The knock-on effect of this is the appearance of lower unemployment. Whilst those in education can be actively seeking work, and therefore counted as unemployed, they are far less likely to do so when compared to those out of work after leaving school. The unemployment imbalance would look far worse but for the increase in education participation.

There are, thus, worrying signs that experience of employment among the young is diminishing both before and after finishing education, and that employers are raising the age they expect to be recruiting as young people increase education participation. This means that the gap between school leaving and job entry is not closing, but simply being delayed.

Closing the gap between school leaving and job entry: the Youth Contract, the Work Programme and the Work Experience Programme

The government's strategy to tackle the high levels of youth unemployment has been coherent, but arguably lacking in scale and poorly delivered. Noting that most youth unemployment occurs between leaving full-time education and finding sustained work, the government has not only sought to extend education and training participation, but also to accelerate recruitment of the young into jobs and give some work experience to those not making successful transitions quickly. The main elements of this strategy have been the Youth Contract, the Work Programme and the Work Experience programme. As seen in **Figure 3**, there has been a marked drop in 16 and 17 year olds defined as NEET. This coincides with the Raising of the Participation Age (RPA) to 17. Implementing this policy is the responsibility of Local Authorities, but they are part of wider network of actors, particularly schools and FE colleges, seeking to realise this ambition. The contribution of central government, other than funding extra places, has been to fund not-for-profit organisations working with those most at risk of disengaging, and to encourage an increase in places on apprenticeships and traineeships (a mix of education and work experience aimed at those not achieving GCSE grades sufficient to start an apprenticeship first time round).

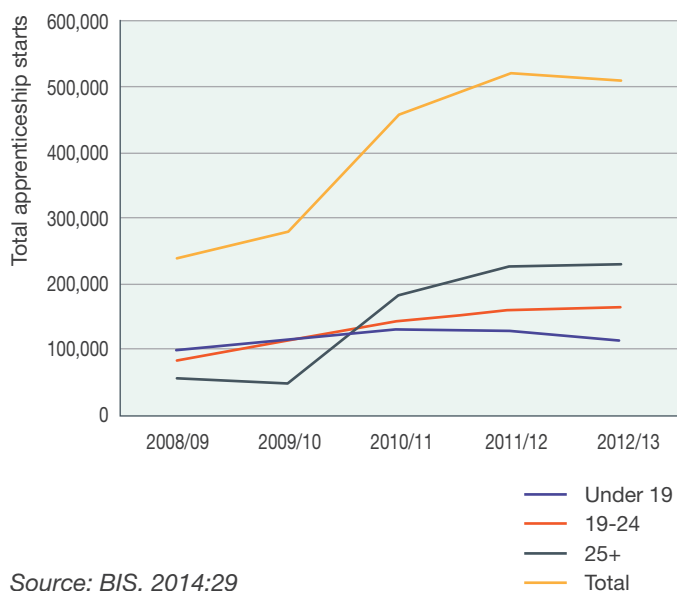
Figure 3: People who were NEET as a percentage of people in relevant population group



Source: ONS, Labour Force Survey

The push to increase apprenticeships has had limited success. **Figure 4**, maps new apprenticeship starts by age group since 2008/09. The biggest increase was among those over 25. This group are in employment and are generally already doing the jobs for which they will gain the apprenticeship qualification. It is thus a formalisation of skills they already have. Whilst this may help them gain new opportunities, it is not the main objective behind the drive to raise apprenticeship numbers. There has been some clear increase in apprenticeship starts among 19 to 24 year olds, which is to be welcomed, but very little for those aged under 19, even when the overall reduction in the size of the 16-19 population is taken into account. The new agencies that offer outreach to those at risk of dropping out of school or FE college have been poorly integrated into existing networks, and have consequently struggled to add much value. They have performed best when embedded into wider city-led strategies to address disengagement, including where they have been delivered by Local Authorities under City Deal bids. Thus, the welcome drop in young NEET numbers has primarily been driven by the efforts of schools, FE colleges and LAs, rather than the Youth Contract.

Figure 4: All apprenticeship programme starts by age (2008/09 to 2012/13)



Source: BIS, 2014:29

The main programme to raise job entry is the government's flagship Work Programme. This is delivered by approved providers (mostly profit-making companies) on an outcome based funding model. The provider receives a small attachment fee, and thereafter receives a payment for each claimant on their books that enters employment, with extra payments for sustained employment outcomes. Following government criticism that previous programmes did not focus enough on job sustainability, providers are given two years to work with the claimant to secure and maintain employment. The Work Programme got off to a slow start, but outcomes have picked up more recently. The first cohorts to enter the Work Programme in 2011 have now finished their 2 years of support offered by a provider. DWP statistics, which covers all participant groups, show that 22% of these early starters have had a job outcome payment made on their behalf. So at some point in the two years they had been in work. According to Inclusion (also called CESI, a not-for-profit company dedicated to tackling disadvantage and promoting social inclusion in the labour market), who provide the best information to gauge the success for the Work Programme, among the young, this figure is higher at 28%. This, by definition, represents the early referrals to the Programme. The latest DWP data suggests that for more recent cohorts job outcomes are running at approximately 4% above those for the earlier cohorts, but this is across all groups and the situation for the young unemployed is not clear.

For all young people who have started the programme so far, the latest data released by DWP (2013) shows that 74,000 have moved into employment. To gauge the performance of the Work Programme, CESI make comparisons with previous programmes. They suggest that for the unemployed aged 25+, where the closest comparisons are possible, the Work Programme is performing slightly worse than the preceding Flexible New Deal but a little better than Employment Zones. In addition, under the Youth Contract, recruitment subsidies worth £2275 for a full-time post, have been offered to employers who recruit a young person from the Work Programme. To date take up of this incentive has been extremely limited. Again, this offer has been poorly integrated with other agencies trying to engage employers about young people.

The final element of the government's strategy is Work Experience. This is a short (up to 8 weeks) unpaid work placement with an employer who has no obligation to offer the participant anything at the end of the placement. This replaced the far more extensive Future Jobs Fund (FJF), which offered 6 months paid work experience. The incoming government closed down the FJF before evaluation was undertaken, claiming it was too expensive. Subsequent evaluation by DWP showed that it was successful in raising job entry and reducing time on benefits, and half the costs were recovered in the 18 months from programme start (which was as far as the evaluation went). Work Experience is shorter in duration, offers benefits only, and places no emphasis on the quality of the placement, unlike FJF. However, being much lower cost means that the government is happy to offer Work Experience after much shorter durations of unemployment. Evaluation of Work Experience, based on administrative data, suggests that 60% of participants were on benefits 13 weeks after starting the placement, compared to 66% of those in the comparison group. At such low cost, this is clearly value for money. More important perhaps is that evidence from both FJF and Work Experience evaluation convincingly shows that giving young unemployed people who have not had work since leaving education/training some work experience is effective in raising job entry, and can be cost effective to the Exchequer.

Future policy plans to tackle high youth unemployment

Perhaps in recognition of the failure to achieve an upturn in youth employment, the Autumn Statement (following a review by Sir Jeremy Heywood, the Cabinet Secretary) offered three further policy developments to be introduced by 2015. This has been followed by a speech by Deputy Prime Minister, Nick Clegg, which went somewhat further in describing new plans.

Most dramatically, from April 2015, employers will no longer have to pay National Insurance Contributions on the wages of young people aged under-21. This will replace existing recruitment subsidies available under the Youth Contract and, at a cost of £500m per annum, is a large ticket item. This will, in all probability, increase employment among those affected when they are a little older as the scarring effects of early unemployment will be reduced. Yet, at first glance high wage costs do not appear to be the main barrier as the wages of young people have fallen

by over 15% in real terms since 2008 (see Gregg *et al*, 2014). Prior to the recession few young people were paid below the adult minimum wage but this has profoundly shifted since the recession and so far rapidly falling wages have not increased employment offers.

The Government is also introducing a new requirement that all young people who have not achieved a level 2 qualification in Maths and English at age 16 should consider studying these subjects until age 19. Building on this, the Government will pilot a new scheme for young Job Seekers Allowance (JSA) claimants, under which claimants without level 2 qualifications in Maths and English will be required to do up to 16 hours per week education/training alongside their job search, or risk losing their benefit entitlement from day one of their claim. In his speech, Nick Clegg proposed trialling a new scheme that would ensure all young claimants, after 6 months on JSA, would be offered a work experience placement, traineeship or community work placement, but the details and time frame are unclear as yet. In addition, there is to be extra official guidance to schools on careers advice; with a new responsibility on schools to develop closer links with employers, and closer Ofsted scrutiny. Finally, the government is offering further financial support for apprenticeships for young people, and Local Authorities are to be charged with creating a, UCAS style, one-stop online shop for the other 50% not going on to university; making clearer training and apprenticeships options. This is a welcome set of new policy agendas, although details are sketchy and the central concerns of lack of scale and lack of clear architecture to deliver an effective service to young people and employers remain.



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